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## “THIRD PERSONS” AND REPRODUCTION: A NOTE TO R. LUXEMBURG’S CRITIQUE OF MARX’S REPRODUCTION SCHEMES

ECONOFICTION CAPITAL, MARX, MARXISM, REPRODUCTION, ROSA LUXEMBURG

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### ***Abstract***

The aim of the present paper is to critically present Rosa Luxemburg’s critique to Marx’s reproduction schemes of a pure capitalist economy in Volume 2 of *Capital*, as a point of departure in order to afterwards criticize the main postulate of (Marxist) underconsumption theories, namely the thesis that a “third party” of consumers, except capitalists and workers, is necessary in order to act as potential “absorbers” of the surplus capitalist production and so to safeguard the ability of the capitalist economy to reproduce itself on an expanding scale.

### ***1. Introduction***

Underconsumption theories were utilized as explanatory approaches to economic instability and crises since the Classical era of Political Economy (Scumpeter [1954] 1994, 740 ff.). Later on, these approaches played a very important role within the framework of Marxist crisis theory: Underconsumption was initially regarded as the “orthodox” Marxist interpretation of crises, to be later on challenged by competing Marxist theoretical streams of thought, especially after Tugan-Baranowsky expounded a radical critique of underconsumption theory on the basis of Marx’s reproduction schemes, in his *Studies on the Theory and History of Trade Crises in England* (published 1900 in Russian, and translated into German the following year, Tugan-Baranowsky, M. v. [1900] 1969, 2000). However, underconsumption theory never lost its influence among Marxists, as profound theoreticians defended and still defend the main postulates of it. This Marxist tradition starts with Rosa Luxemburg’s critique of Marx’s reproduction schemes in Volume 2 of *Capital*, which had served as a point of departure for many Marxist opponents of underconsumption theories, in the line of argument of Tugan-Baranowsky’s *Studies* (Milios 1994, Milios et al 2002, 158 ff.).

The tension concerning the *flow of cause and effect* in the relationship between demand and supply, being a central point of theoretical confrontation between orthodox (Neoclassical) and Keynesian economics, preserved the significance of some of the arguments developed by this tradition. It was in this theoretical context that J. Robinson claimed about Luxemburg’s work that it “shows more prescience than any orthodox contemporary could claim” (Robinson 1968, 28). In this line of argument, Robinson attempted to illustrate “the ‘Keynesian’ element in Marx” (Robinson [1942] 1991, vi-vii).

In this paper we are going to critically present Luxemburg’s main theoretical arguments in her polemics with opponent Marxist theorists, in order to afterwards criticise the main postulate of (Marxist) underconsumption theories, namely the thesis that a “third party” of consumers, except capitalists and workers (i.e. an “external market” in relation to the capitalist mode of production) is necessary in order to act as potential “absorbers” of the surplus capitalist production and so to safeguard capitalism’s ability to recover from crises. We believe that the critical discussion of the “third party” approaches may contribute to a better understanding of contemporary discussions regarding the relation between income, capable-to-buy-demand and supply.

## 2. The condition of unimpeded reproduction of a pure capitalist economy according to Marx

In the second volume of *Capital* (Marx [1893] 1992), Marx formulates in terms of values the conditions for unimpeded reproduction on (a simple and) an expanded scale of a pure capitalist economy comprised of two sectors (or departments), one of which (Sector I) produces means of production for the entire economy and the other (Sector II) means of consumption for all workers and capitalists. In other words, the *reproduction schemes* developed by Marx in Volume 2 of *Capital* show under what conditions the circuit of capital,  $M-C-M'$  may function on the level of the capitalist economy as a whole, i.e. in respect with the social capital.

Let us postulate that  $I_c + I_v + I_s$  is the output (the gross product) of Sector I, which produces means of production, and  $II_c + II_v + II_s$  is the output of Sector II, which produces means of consumption. For the conditions of unimpeded reproduction to be fulfilled, the output in each sector must be equal to the demand in both sectors for the means – of production or consumption – produced in the sector under discussion.

Thus, in the case of Sector I, which produces means of production, its total output must be equal to the demand for means of production in both sectors (for replacement of worn-out components and for accumulation). The value of worn-out means of production is  $I_c$  for Sector I and  $II_c$  for Sector II, while their demand for additional means of production (constant capital) for the purpose of expanding their productive base (accumulation) is  $\Delta I_c$  and  $\Delta II_c$  respectively. Thus, the condition which favours unimpeded reproduction of social capital on an expanded scale is:

$$I_c + I_v + I_s = I_c + \Delta I_c + II_c + \Delta II_c \quad (1)$$

Assuming that neither credit relations nor value transfer can exist *between one sector and another* and that accordingly the surplus value appropriated by capitalists in Sector I must secure satisfaction of both the consumer demand of capitalists and their demand for constant and variable capital for accumulation, the following will apply:

$$I_s = \Delta I_c + \Delta I_v + I_k \quad (2)$$

(where the figures  $\Delta I_c + \Delta I_v$  denote the aggregate of additional constant and variable capital and  $I_k$  the personal consumption of Sector I capitalists).

From the combination of relations (1) and (2) we conclude finally that the expenditure of Sector I on means of consumption must be of the same value as the expenditure of Sector II on means of production:

$$I_c + I_v + \Delta I_c + \Delta I_v + I_k = I_c + \Delta I_c + II_c + \Delta II_c \Rightarrow I_v + \Delta I_v + I_k = II_c + \Delta II_c \quad (3)$$

We would end up with exactly the same relations (3) if we commenced from Sector II (which produces means of consumption) and equalized its output ( $II_c + II_v + II_s = II_c + II_v + \Delta II_c + \Delta II_v + II_k$ ) with demand in both sectors for means of consumption ( $I_v + \Delta I_v + I_k + II_v + \Delta II_v + II_k$ ).

The left part of relation (3) represents the value of the means of production which Sector I supplies after the abstraction from its overall production of the value of the means of production needed by the Sector itself, for its enlarged reproduction; it is, therefore, the net production (or net supply) of Sector I. The right part of relation (3) represents the value of the means of consumption which Sector II supplies after the abstraction from its overall production of the value of the means of consumption needed by Sector II itself, for its enlarged reproduction; it is, therefore, the net production (or net supply) of sector II. Since the overall demand in every sector of a pure capitalist economy for means of production and consumption is equal to the value of the gross product of that sector (that is its overall supply) it is connoted from relation (3) that the net demand of sector I for means of consumption is equal to its net supply of means of production and the net demand of sector II for means of production is equal to its net supply of means of consumption or that *the net demand for means of consumption of sector I is equal to net supply of means of consumption of sector II* and the net supply of means of production of sector I is equal to net demand for means of production of sector II.

## 4. Luxemburg’s objection and theoretical interpretation

According to R. Luxemburg, the expanded reproduction in a pure capitalist economy is impossible. And the cause is the insufficient

demand as to supply.

“There may even be a desire to accumulate in both departments, yet the desire to accumulate plus the technical prerequisites of accumulation is not enough in a capitalist economy of commodity production. A further condition is required to ensure that accumulation can in fact proceed and production expanded: *the effective demand for commodities must also increase*” (Luxemburg [1913] 1968, 131, emphasis added).

Following this argument, she asks: “Where is this continually increasing demand to come from, which in Marx’s diagram forms the basis of reproduction on an even rising scale?” (op. cit. 131). For her, “it cannot possibly come from capitalists of Departments I and II themselves (...) it cannot arise out of their personal consumption (...) That indeed is the foundation of accumulation: the capitalists’ abstention from consuming the whole of their surplus value” (op. cit. 131-32). Neither can it possibly come from workers: “The working class in general receives from the capitalist class no more than an assignment to a determinate part of the social product, precisely to the extent of variable capital. The workers buying consumer goods therefore merely refund to the capitalist class the amount of the wages they have received, their assignment to the extent of the variable capital. They cannot return a groat more than that (...) and if they are in a position to save (...) they may even return less” (op. cit. 132). It can neither come from “the natural increase of the population” since “there are only two classes of the population according to Marx’s diagram, the capitalists and the workers. The natural increase of the former is already catered for by that part of the surplus value which is consumed inasmuch as it increases in absolute quantity. (...) The question is therefore whether the natural increase of the working class (...) entails a growing effective demand over and above the variable capital. And that is quite impossible (...)” (op. cit. 133-34). Also, it cannot possibly come from the “third persons” belonging to the inside of a capitalist economy – like “the landowners, the salaried employees, the liberal professions (...) the Church and its servants, the Clergy, and finally the State with its officials and armed forces” – since “within the limits of Marx’s diagram there are in fact only the two sources of income in a society: the labourers’ wages and the surplus value. All the strata of the population we have mentioned as apart from the capitalists and the workers, are thus to be taken only for joint consumers of these two kinds of income” (op. cit. 134-35). Finally, it cannot possibly come from “foreign trade” *between capitalist countries*: “Recourse to foreign trade really begs the question: the difficulties implicit in the analysis are simply shifted – quite unresolved – from the one country to another. Yet if the analysis of the reproductive process actually intends not any single capitalist country but the capitalist world market, there can be no foreign trade: all countries are ‘home’” (op. cit. 136).

Luxemburg’s key argument is, therefore, as follows: Since, on the one hand, Marx’s reproduction schemes presuppose an expansion not only of the production of means of production but also of consumer goods (see relation [3]), while on the other hand such an expansion of personal consumption *is impossible* without involvement of “third persons” not belonging to capitalism (the principal thesis of all underconsumption theories and/or theories of absolute immiseration) the conclusion is that “on the question of accumulation, mathematical problems can prove absolutely nothing, since their historical premise is untenable” (Luxemburg, R. [1921] 1972, 65). So, she concludes: “Marx’s diagram of enlarged reproduction cannot explain the actual and historical process of accumulation” (Luxemburg [1913] 1968, 348). In her view “realisation of surplus value requires ‘third persons’, that is to say consumers other than the immediate agents of capitalist production (...) there should be strata of buyers outside capitalist society (...) social organisations or strata whose own mode of production is not capitalistic” (op. cit. 350-52). In short, “that part of the surplus value (...) which is earmarked for capitalisation, must be realised elsewhere” (op. cit. 366).

According to Luxemburg, these non-capitalist strata and organizations perform a double function with respect to the two departments of capitalist production-reproduction: “(1) Capitalist production supplies consumer goods over and above its own requirements, the demand of its workers and capitalists, which are bought by non-capitalist strata and countries. (...) (2) Conversely, capitalist production supplies means of production in excess of its own demand and finds buyers in non-capitalist countries” (op. cit. 352). Yet, a reasonable question arises at this point. What is the source of revenue of the non-capitalist strata, “milieus” etc., for the purchase of capitalist produced commodities? Luxemburg answers: They “*receive their means of purchase from an independent source*, and do not get it out of the pocket of the capitalist like the labourers or the collaborators of capital (...) They have to be consumers who receive their means of purchase on the basis of commodity exchange, i.e. also production of goods, but taking place outside of capitalist commodity production” (Luxemburg [1921] 1972, 57, emphasis added).

The above may mean that the non-capitalist “milieus” only buy from the capitalist economies and never sell to them. Put differently, between capitalist and non-capitalist economies there is an one-way exchange relation. This assumption is however not well founded, as Nikolai Bukharin has extensively argued, in a polemic pamphlet against Luxemburg, first published in German in 1925 (Bukharin [1925] 1972. See especially 240, 247-48). Resuming that argument, Paul Sweezy correctly stated that “it is not possible to sell to non-capitalist consumers without also buying from them” (Sweezy [1942] 1970, 205).

However, when discussing what she considers to be Marx’s “contradictions within the diagram of enlarged reproduction” (Luxemburg [1913] 1968, chap. xxv), Rosa Luxemburg assumes that a two-way exchange relation between the capitalist economy and the non-capitalist “milieus” does actually take place, the outcome of which is though a constantly increasing imbalance in the capitalist economy: a negative balance for the means of production and a surplus of unsaleable means of subsistence.

In the next section of this paper we will deal with this argument, in an effort to show that if non-capitalist economic agents are connected to the capitalist economy through relations of exchange of equivalents, then the problem of expanded reproduction is modified, and so is modified accordingly its solution. However, this modification does not in any way mean that the problem posited by

Marx becomes solvable only through the existence of non-capitalist “milieus”. Quite the opposite, Marx’s solution is symmetrical to the one obtained in the case of an economy comprising both capitalist and non-capitalist sectors.

#### 8. A reproduction scheme with “third persons”

Synopsising the above, it can be said that the basic question on which Luxemburg’s theory is unable to make any pronouncement is how and why the “third party” (“third persons of the colonies”) are to buy up the surplus capitalist production. The only possible answer to the question is that this “third party” acquires income from production of non-capitalist commodities, which are then sold so that capitalist commodities can (also) be purchased. It is therefore a question of transactions between the capitalist and the non-capitalist economies (or “milieus”). However, because what is involved is by definition an exchange of equivalents, the capitalist economy unloads (disposes of) the same amount of value as it takes on (is supplied with). *Marx’s reproduction schemes are modified, but the supposed “problem” with them, as the underconsumptionist theoreticians identified it, does not go away.*

Let us undertake such a modification, postulating a simplified version where we suppose that there are four sectors: two capitalist and two non-capitalist. Specifically:

Capitalist sector I produces means of production.

Capitalist sector II produces means of subsistence.

Non-capitalist sector III produces raw materials (means of production).

Non-capitalist sector IV produces agricultural goods (means of subsistence).

We also postulate that production in the non-capitalist sectors is a process of simple reproduction of the autonomous non-capitalist producers: the purpose is not profit but subsistence. Extrinsic labour power is not used for production, whose end is simple reproduction of the non-capitalist sectors. The non-capitalist producers are satisfied with the equivalent of a workman’s wage ( $\Rightarrow$  surplus product = 0).

We thus have:

Sector I:  $I_c + I_v + I_s$ .

Sector II:  $II_c + II_v + II_s$ .

Sector III:  $III_c + III_{vi}$ .

Sector IV:  $IV_c + IV_{vi}$ .

(Where  $vi$  is the equivalent of the working wage of an independent producer).

In the case of unimpeded reproduction, supply must equal demand.

That is to say:

Supply of means of production = demand for means of production (to replace worn-out means and for accumulation in the capitalist sectors):

$$I_c + I_v + I_s + III_c + III_{vi} = I_c + \Delta I_c + II_c + \Delta II_c + III_c + IV_c \quad (4)$$

Supply of means of consumption = demand for means of consumption:

$$II_c + II_v + II_s + IV_c + IV_{vi} =$$

$$I_v + I_k + \Delta I_v + II_v + II_k + \Delta II_v + III_{vi} + IV_{vi} \quad (5),$$

where  $I_k$ ,  $II_k$  denote individual consumption by capitalists in sectors I and II.

We accept the hypothesis that overall demand in every sector for means of production and consumption is equal to the value of the gross product of that sector:

$$I_c + \Delta I_c + I_v + I_k + \Delta I_v = I_c + I_v + I_s \quad (6),$$

$$II_c + \Delta II_c + II_v + II_k + \Delta II_v = II_c + II_v + II_s \quad (7),$$

$$III_c + III_{vi} = III_c + III_{vi} \quad (8),$$

$$IV_c + IV_{vi} = IV_c + IV_{vi} \quad (9).$$

$$\text{From (6)} \Rightarrow I_k + \Delta I_c + \Delta I_v = I_s \quad (6i).$$

$$\text{From (7)} \Rightarrow II_k + \Delta II_c + \Delta II_v = II_s \quad (7i).$$

Given (6i), (7i) [(8) and (9)], then (4) and (5) become:

$$Ic + Iv + Ik + \Delta Ic + \Delta Iv + IIIc + IIIvi =$$

$$Ic + \Delta Ic + IIc + \Delta IIc + IIIc + IVc \text{ (4i)},$$

$$IIc + IIv + IIk + \Delta IIc + \Delta IIv + IVc + IVvi =$$

$$Iv + Ik + \Delta Iv + IIv + IIk + \Delta IIv + IIIvi + IVvi \text{ (5i)}.$$

$$\text{From (4i) and (5i)} \Rightarrow Iv + Ik + \Delta Iv + IIIvi = IIc + \Delta IIc + IVc \text{ (10)}.$$

Relation (10) is the (modified) condition for unimpeded reproduction for the four-sector economy studied. Its similarities are obvious with the condition for unimpeded reproduction of a pure capitalist economy as analysed by Marx (see relation 3).

It is again a condition which shows under what prerequisites expanded reproduction of the capitalist sectors is possible in the case of simple reproduction of the non-capitalist.

When this condition is fulfilled, reproduction of the system is unimpeded. Accordingly, when it is not fulfilled, its reproduction encounters an obstacle.

### 9. The condition for unimpeded reproduction and “third persons”

We are now in the position to demonstrate a final element concerning R. Luxemburg’s solution of the “reproduction problem” by means of the “third persons”. At this point we will accept the assumption that the expanded reproduction in a pure capitalist economy is impossible owing to the non-realization of that part of surplus value which is earmarked for capitalization, as Luxemburg indicates. The point now is the following: could the “third persons” resolve the problem?

We suppose that in the process of expanded reproduction of a pure capitalist economy there emerge a negative balance for the means of production and a surplus of unsaleable means of subsistence, a hypothesis which does not abstain from Luxemburg’s assumptions in her discussion of Marx’s reproduction schemas (see Luxemburg [1913] 1968, chap. xxv, esp. 337-38 ).<sup>ii</sup> In this case we have:

$$Ic + Iv + Is < Ic + \Delta Ic + IIc + \Delta IIc \text{ (11)}$$

$$IIc + IIv + IIs > Iv + Ik + \Delta Iv + IIv + \Delta IIv + IIk \text{ (12)}.$$

We accept also the hypothesis that the surplus value of each sector is equal to the capitalists’ private consumption plus the additional constant and variable capital for accumulation in that sector (which means that the overall demand for means of production and consumption in every sector is equal to the value of the gross product of that sector). Thus relations (6) and (6i), (7) and (7i) remain unchanged:

$$Ic + \Delta Ic + Iv + Ik + \Delta Iv = Ic + Iv + Is \text{ (6)},$$

$$IIc + \Delta IIc + IIv + IIk + \Delta IIv = IIc + IIv + IIs \text{ (7)},$$

$$Ik + \Delta Ic + \Delta Iv = Is \text{ (6i)}$$

$$IIk + \Delta IIc + \Delta IIv = IIs \text{ (7i)}.$$

Given (6i) and (7i), (11) and (12) become:

$$Ic + Iv + Ik + \Delta Ic + \Delta Iv < Ic + \Delta Ic + IIc + \Delta IIc \text{ (11i)}$$

$$IIc + IIv + IIk + \Delta IIc + \Delta IIv > Iv + Ik + \Delta Iv + IIv + \Delta IIv + IIk \text{ (12i)}.$$

$$\text{From (11i) and (12i)} \Rightarrow Iv + Ik + \Delta Iv < IIc + \Delta IIc \text{ (13)}.$$

Relation (13) means that the net demand for means of consumption of the capitalist sector I is smaller than the net supply of means of consumption of the capitalist sector II and the net supply of means of production of the capitalist sector I is smaller than the net demand for means of production of the capitalist sector II.

Relation (13) indicates that under the given circumstances, the unimpeded reproduction of a pure capitalist economy is impossible. To be possible, relation (3)  $\{Iv + \Delta Iv + Ik = IIc + \Delta IIc\}$  ought to be fulfilled.

Accordingly, for the unimpeded reproduction of a non-pure capitalist economy to be possible, relation (10)  $\{Iv + Ik + \Delta Iv + IIIvi = IIc + \Delta IIc + IVc\}$  ought to be fulfilled. If relation (10) is fulfilled *when relation (3) is fulfilled*, then from (3) and (10) we may conclude that:

$$IIIvi = IVc \text{ (14)}.$$

Given our previous analysis in concern with relations (3), (8) and (9), it can be inferred that relation (14) means that for the simple reproduction of the non-capitalist sectors to be fulfilled, net demand of sector III for means of consumption has to be equal to its net supply of means of production and net demand of sector IV for means of production has to be equal to its net supply of means of consumption or net demand for means of consumption of the non-capitalist sector III has to be equal to net supply of means of consumption of the non-capitalist sector IV and net supply of means of production of the non-capitalist sector III has to be equal to net

demand for means of production of the non-capitalist sector IV.

Relation (14) means also that in the non-capitalist economy of sectors III and IV the unimpeded (simple) reproduction is possible  $\{IIIc + IIIvi = IIIc + IVc \text{ and } IVc + IVvi = IIIvi + IVvi\}$ .

According to R. Luxemburg’s affirmations, when relation (13) emerges instead of relation (3), it is still possible to ensure the unimpeded reproduction of the system as a whole by virtue of “third persons”.

In terms of our present analysis this would be possible in the non-pure capitalist (four-sector) system if:

$$IIIvi > IVc \quad (15)$$

so that relation (10) would be fulfilled.

Relation (15) means that the net demand for means of consumption of the non-capitalist sector III is higher than the net supply of means of consumption of the non-capitalist sector IV and the net supply of means of production of the non-capitalist sector III is higher than the net demand for means of production of the non-capitalist sector IV. This means that the non-capitalist economy (sectors III + IV) demands more means of consumption than it produces (supplies) and produces (supplies) more means of production than it demands. In other words, the negative balance of the means of production and the surplus of the means of subsistence in the capitalist economy are counterbalanced by the positive balance of the means of production and the deficit of the means of subsistence in the non-capitalist economy.

However, this “solution” of the “reproduction problem” is unsatisfactory: Considering that the “third persons” are simple commodity producers, who aim at ensuring a certain level of consumption by producing commodities of the same value as those they consume (exchange of equivalences), then the output of non-capitalist Sector III (and IV) must remain practically constant or change very slowly over time. This means that, in the case in question, equation (10) illustrates a condition of static equilibrium, which cannot be kept in the long run, given the main assumption of underconsumption theory, namely that the gap between the capitalist sectors’ production and consumption capacity (of consumer goods) tends constantly to widen.<sup>iii</sup>

The above mean that relation (15) is not sufficient to ensure the validity of relation (10), which in the long run will be transformed to:

$$Iv + Ik + \Delta Iv + IIIvi < IIc + \Delta IIc + IVc \quad (16).$$

Relation (16) means that to the extent that unimpeded reproduction is impossible in a pure capitalist economy to the same extent it is also impossible in a non-pure one and vice-versa. The thesis of R. Luxemburg (and nearly all underconsumption theorists) that the long run expanded reproduction of capitalism is ensured by the consumption capacity of “third persons” cannot be sustained.

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### NOTES

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ii We have to bear in mind that this assumption does not actually refer to what Marxist theory describes as (general) overproduction, but rather to a Classical partial overproduction (imbalance) scheme, where the overproduction of one Sector is counterbalanced by the underproduction of another (see Bukharin [1925] 1972, 221 ff.).

iiiAs Karl Kautsky had put it: “Although capitalists increase their wealth and the number of exploited workers grows, they cannot themselves form a sufficient market for capitalist produced commodities, as accumulation of capital and productivity grow even faster. They must find *a market in those strata and nations which are still non-capitalist*. They find this market, and expand it, but still not fast enough, since *this additional market hardly has the flexibility and ability to expand of the capitalist process of production.* (...) Thus, *any prosperity which results from a substantial expansion in the market is doomed from the beginning to a short life*, and will necessarily end in a crisis” (quoted by Luxemburg, in Luxemburg [1921] 1972, 79, emphasis added).

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